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Quick Look:

This document includes: Background Information, Quick Facts, and Frequently Asked Questions about PCB FTC 11-02 sponsored by the House Finance and Tax Committee chaired by Representative Precourt.

Quick Facts:

- Thirty states have imposed restrictions on their government's revenue.
- Colorado's ***Taxpayer's Bill of Rights*** is considered by many to be the most stringent revenue restriction in the nation.
- In the last ten years, the closest Florida has come to reaching our current revenue cap was in 2005-06 when the state was within $658 million of the cap.

OPI Pulse: State Government Revenue Limitation

Background:

The State of Florida uses revenue generated from tax collection, fees, licenses, and service charges to cover its operating costs and provide services to the public. While revenue from these sources is necessary to continue government functions, Florida's Constitution requires legislators to ensure state revenue never outpaces economic growth. This pace is calculated using a formula outlined in Article VII, Section 1 of the Florida Constitution which limits or "caps" state revenue based on the personal income of Florida residents. The cap is calculated by multiplying the previous year's cap by the rate of total personal income growth in the state over the last five years.

Issues at a Glance:

The Florida House of Representatives Finance & Tax Committee recently noticed a proposed committee bill (PCB) related to changing the method for calculating the limit on state government revenue. Proponents have expressed the following reasons for the proposed legislation:

- Proponents argue the current revenue caps are too high, citing that state revenues have not come close to the cap in more than ten years; with an exception in 2005-06 when revenues were $658 million short of the cap.
- Proponents assert the measure will curb government overspending during short-term economic booms, in order to provide for long-term economic stability.
- Proponents also claim the cap will only limit the Legislature's ability to tax and spend when revenues grow faster than inflation and the state's population.

What the Bill Does:

PCB FTC 11-02 proposes an amendment to create Section 19 of Article VII of the State Constitution. Should the amendment pass, it would take effect in the 2014-15 fiscal year. Specific details related to the proposed amendment are included below:

- The amendment would change the basis for the current revenue limitation calculation from personal income growth of Floridians to population growth and inflation.
- The amendment would require any revenue collected above the state cap to first be deposited in the Budget stabilization fund, then used to support public education, then be given back to the taxpayers if there is enough excess.

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- The amendment authorizes the Legislature to increase the revenue limitation for any fiscal year by a supermajority vote in the Legislature or a 3/5 vote by the Florida electorate. These increases are only valid for one year and are not factored in when calculating the cap for subsequent years.

- The amendment would require that for the first four years after the bill has been enacted, an additional percentage of the total cap will be added to the cap; starting with four percent the first year, three percent the second year, two percent the third year, and one percent the fourth year. Starting with the fifth year after the bill's implementation, the additional percentage to the total will not be added.

Frequently Asked Questions: State Government Revenue Limitation

How will the amendment affect the Legislature in practical terms?
The revenue cap will have an impact on legislation during years when state revenue exceeds the cap. Under current law, Florida has never exceeded its spending cap and has only come close a few times since 1994. Proponents assert the amendment will adjust the cap so that it corresponds more closely to how much revenue the state realistically generates, ensuring government doesn't overspend during times of sudden economic growth.

Why hasn't Florida's revenue come close to the cap?
A number of events have occurred since the cap was established in 1994 which have caused revenues to fall well below what was originally anticipated by legislators in 1994. Florida has enacted several measures to reduce sales and use, beverage, corporate income, and pari-mutuel taxes. Federal laws have also changed to reduce estate tax revenue. Finally the recession has contributed to the widening gap between revenues and the cap.

What happens if the Government goes over the revenue cap?
The amendment proposes that excess funds would go to the Budget Stabilization Fund. If that fund reaches its maximum, then excess monies would go toward lowering the financial effort required by local school districts to participate in state education programs. If such requirements do not need to be lowered further, the excess funds would be returned to taxpayers, as they are under current law.

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